



26. BUSINESS COMBINATIONS

Acquisition of subsidiary

	Viamedia Proprietary Limited Mobile content and value-added services provider 1 September 2014
Date acquired	75
% acquired	
At 31 May 2015	R'000
Assets	103 383
Liabilities	53 917
Revenue since acquisition	153 754
Profit after tax since acquisition	34 826

Had the acquisition of subsidiary taken place at the beginning of the financial year, it would have contributed R191.2 million to revenue and R47.5 million to net profit after tax. The actual contribution to revenue and net profit after tax for the year was R153.8 million and R34.8 million respectively.

The fair value of the net assets approximated the assets acquired on acquisition date.

26. BUSINESS COMBINATIONS continued
Acquisition of subsidiary continued

	Viamedia Proprietary Limited R'000
Bank overdraft	(13 086)
Property, plant and equipment	1 579
Intangible assets**	62 762
Receivables	15 800
Inventories	619
Receiver of revenue receivable	19 403
Deferred tax**	(17 066)
Payables	(12 424)
Fair value of subsidiaries acquired	57 587
Non-controlling interests*	(14 397)
Fair value of net assets acquired	43 190
Goodwill	185 967
Total purchase consideration	229 157
Contingent consideration	(84 783)
Settled in cash	144 374
Plus: Bank overdraft of subsidiary	13 086
Cash flow on acquisition	157 460

* The non-controlling interest acquired is measured using the proportionate share of the recognised amounts of Viamedia's identifiable net assets.

** Included in additions in note 5 is R61.4 million of Databases which relate to the purchase price allocations performed for Viamedia Proprietary Limited in terms of IFRS 3(R) – Business Combinations. Deferred tax to the value of R17.2 million was raised on recognition of this intangible asset.



26. BUSINESS COMBINATIONS continued

Acquisition of subsidiary continued

Viamedia Proprietary Limited (Viamedia) was purchased with the objective of affording the Group access to new channels for the distribution of both Viamedia and Group products and services.

In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill. In the case of the acquisition of Viamedia, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant among these is the opportunity that the distribution network affords the Group.

The contingent consideration arrangement requires Blue Label Telecoms Limited to pay in cash the former owner of Viamedia, an additional amount of R215.6 million if certain profit warranties are achieved. The first three amounts of R24.1 million are based on the profits of Viamedia for the year ended 31 May 2015 and years ending 31 May 2016 and 31 May 2017. The fourth and fifth amounts of R30.9 million and R112.5 million are based on the profits of Viamedia for the three years ending 31 May 2017.

The potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is between Rnil and R215.6 million.

The fair value of the contingent consideration arrangement of R84.8 million was estimated by applying the income approach. The fair value estimates are based on a discount rate of 9%. For the first, second, third and fourth profit targets management has assumed a probability of 100%. For the fifth profit target management has assumed a probability of 0%. In determining these probabilities management has assessed the cash flow projections based on financial budgets approved by the board of directors for the forthcoming three years which are based on assumptions of the business, industry and economic growth.